SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION

Joseph Sawicki, Jr.
Comptroller

An Audit of
Peconic Bay Medical Center
For the Audit Period
January 1, 2007 through December 31, 2007

Report No. 2009-06
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Joseph Sawicki, Jr.
Suffolk County Comptroller

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LETTER OF TRANSMITTAL

July 6, 2009

Hon. Joseph Sawicki, Jr.
Suffolk County Comptroller
Suffolk County Department of
Audit & Control
H. Lee Dennison Executive Office Building
100 Veterans Memorial Highway
P.O. Box 6100
Hauppauge, NY 11788

Dear Mr. Sawicki:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), an examination was conducted of the Peconic Bay Medical Center ("Hospital"), under contract with the Suffolk County Department of Health Services ("Department") to provide services at the Riverhead Health Center as well as the Suffolk County Correctional Facility. The Hospital's principal place of business is located at 1300 Roanoke Avenue, Riverhead, NY 11901.

We have audited the accompanying Summary Statement of Expenditures and related statements for the period January 1, 2007 through December 31, 2007. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on the financial statements based on our audit.

Our examination was conducted in accordance with the standards of an examination-level attestation engagement contained in Government Auditing Standards (GAS) issued by the Comptroller General of the United States and, accordingly, included examining on a test basis, evidence supporting the amounts reported in the financial statements. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the second paragraph of this letter, present fairly, in all material respects, expenditures incurred and audit adjustments resulting from the Hospital's provision of services at the Riverhead Health Center and at the Suffolk County Correctional Facility for the contract year ended December 31, 2007, on the basis of Accounting described in Note (1). The accompanying financial statement discloses an audit adjustment in the amount of $65,679 (Schedule 1, p. 11).

In accordance with Government Auditing Standards, we obtained an understanding of internal controls related to the subject matter and whether they have been placed in operation and assessed whether the Hospital complied with certain provisions of laws, regulations, and contracts. Testing was less in scope than would be necessary to render an opinion on internal control and compliance and, accordingly, no opinion is expressed. However, we have included in our report any internal control deficiencies and matters of noncompliance identified during our examination that are required to be reported under Government Auditing Standards.

Respectfully,

Elizabeth Tesoriero

Elizabeth Tesoriero, CPA
Executive Director of
Auditing Services

SUMMARY RESULTS OF EXAMINATION

County Funding – As a result of our audit, for the period January 1, 2007 through December 31, 2007, we determined that the Hospital was overpaid $65,679 by Suffolk County (Schedule 1, p.11). The overpayment consists primarily of disallowed fringe benefit costs that did not accurately reflect the actual fringe benefit expenses incurred and paid by the Hospital on behalf of the Hospital's employees, and fee for service expenses pertaining to gynecological sessions that were not actually provided.

Compliance with Laws, Regulations and Contracts – The audit disclosed the following instances of noncompliance that are required to be reported under government auditing standards:

- The Hospital claimed and was reimbursed for fringe benefit costs that did not accurately reflect the actual fringe benefit expenses incurred and paid by the Hospital on behalf of the Hospital's employees (p. 5).

- The Hospital claimed and was reimbursed for thirty-four gynecological sessions (fee for service expenditures) that were not provided by the physicians (p. 7).

- The Hospital claimed and was reimbursed for two obstetrical deliveries provided to patients who did not qualify as active Health Center patients (p. 7).

- The Hospital claimed and was reimbursed for malpractice insurance expenses that did not accurately reflect the actual malpractice insurance expenses incurred and paid by the Hospital in performance of the agreement (p. 8).

We also noted one immaterial instance of noncompliance (p. 9).

Internal Controls – Our review of internal controls that are material to the subject matter did not reveal any deficiencies that are required to be reported under Government Auditing Standards.

GENERAL INFORMATION

Peconic Bay Medical Center, formerly known as Central Suffolk Hospital, ("Hospital"), is a not-for-profit hospital having its principal place of business at 1300 Roanoke Avenue, Riverhead NY, 11901.

Peconic Bay Medical Center entered into a written agreement with Suffolk County to provide services, staff and facilities to assist the County in providing health care to patients of the Riverhead Health Center and inmates of the Suffolk County Correctional Facility. This agreement provides County funding for personnel expenses, employee benefits, fee for service expenses and other expenses. The Hospital provides patient care services and a comprehensive health care program to the community. A full range of services are offered at the Health Center including preventive health care services, pediatric and adult diagnosis treatment, prenatal care and obstetrical services (including deliveries at the Hospital for active Center patients participating in the prenatal program). Patients are referred to the Hospital if the services they require cannot be provided at the Health Center or Correctional Facility.

Pursuant to the contract, the Hospital is reimbursed for health care services provided to patients of both the Health Center and the Correctional Facility. The maximum amounts eligible for reimbursement for each expenditure line are stipulated in the contract and are limited to amounts actually expended and/or services actually provided.

DETAILED RESULTS OF EXAMINATION

In accordance with Government Auditing Standards, we are required to report findings of deficiencies in internal control, violations of provisions of contract or grant agreements, and abuse that are material to the Summary Statement of Expenditures (p.11) and related statements and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Statements were prepared in accordance with all applicable contract provisions, laws and regulations and not for the purpose of expressing an opinion on the internal control over the preparation of the Statements or on compliance and other matters; accordingly, we express no such opinions.

Compliance

The results of our tests disclosed the following material matters of noncompliance that are required to be reported under Government Auditing Standards:

The Hospital claimed and was reimbursed for fringe benefit costs that did not accurately reflect the actual fringe benefit expenses incurred and paid by the Hospital on behalf of the Hospital's employees. The Hospital's contract with the County states that the Hospital may submit a monthly claim for the reimbursement of fringe benefit expenses based on a fixed percentage of salaries contained in the contract budget. No later than March 1st of each calendar year following the contract period, the Hospital is required to submit a final claim that reflects the actual costs of employee benefits. However, we found that certain methodologies utilized by the Hospital to

determine the actual fringe benefit costs were inaccurate. Our audit disclosed the following:

- The Hospital billed the County $57,460 for disability insurance provided under the terms of the Agreement; however, our testing revealed that the Hospital paid only $347 for disability insurance expenses. Our analysis of their computation revealed that they claimed $340 per week per employee (169 weeks x $340 = $57,460) instead of the correct rate terms of .59% of $340 per week per employee. We also found that the number of weeks allowable was 173 instead of 169. Therefore, our calculation of the amount allowed is as follows: 173 weeks x $340 x .59% = $347 and the total disallowance is $57,113 ($57,460-$347). The disallowance is $30,747 for the Correctional Facility and $26,366 for the Health Center.

- The Hospital billed the County $3,640 for workers' compensation insurance provided under the terms of the Agreement; however, our testing revealed that the Hospital should have only charged $3,022 to the County for workers' compensation expense. This resulted in a disallowance of $618 ($438 for the Correctional Facility and $180 for the Health Center).

- The Hospital billed the County $1,227 for health insurance provided under the terms of the Agreement; however, our testing revealed that the Hospital actually paid $11,110 for employee health insurance coverage. The Hospital claimed the employee contribution amounts rather than the actual cost of coverage net of the employee contributions. This resulted in an additional allowance of $9,883 ($8,864 for the Correctional facility and $1,019 for the Health Center).

Recommendation 1

The Hospital should institute procedures to ensure that only those fringe benefit costs actually incurred by the Hospital are claimed to the County for reimbursement. These procedures should include a final review by the Hospital's Controller or another responsible employee prior to the submission of the claim to the County. The final review should include an assessment of the overall reasonableness and accuracy of the methodologies utilized to determine the actual fringe benefit costs associated with personnel providing services under the County contract.

The Hospital claimed and was reimbursed for thirty-four gynecological sessions (fee for service expenditures) that were not provided by the physicians. The Hospital billed the County $75,240 for 152 gynecological sessions at the Riverhead Health Center during 2007; however, our testing revealed that only 118 sessions were actually provided from January 1, 2007 through December 31, 2007. Since gynecological sessions were billed at $495 per session, a $16,830 audit adjustment was made based on the number of sessions not provided (34 sessions x $495).

Recommendation 2

The Hospital should ensure that only those expenses actually incurred and paid are claimed for reimbursement from the County. To facilitate this process the Hospital should develop a procedure, in cooperation with the Department of Health Services, for verifying the sessions provided at the Health Center by the fee for service physicians. Furthermore, the Hospital should reimburse the County $16,830 for gynecological sessions which were claimed to the County, but not actually provided by the physicians.

The Hospital claimed and was reimbursed for two obstetrical deliveries provided to patients who did not qualify as active Health Center patients. The Hospital billed the County $401,200 for 236 infant deliveries to active health center patients provided under the terms of the Agreement. However, our testing revealed that the Hospital should have only billed for 234 deliveries from January 1, 2007 through December 31, 2007, resulting in an audit adjustment of $3,400. The difference was due to the following:

- The Hospital claimed four obstetrical deliveries related to patients that did not qualify as active Health Center patients as defined by the Agreement. This resulted in a $1,700 disallowance for each of the four associated deliveries, a total of $6,800.

- The Hospital did not bill the County for two obstetrical deliveries related to active Health Center patients occurring in November 2007. We will allow a $1,700 payment for each of these two unbilled deliveries, a total of $3,400.

Recommendation 3

The Hospital should ensure that only obstetrical deliveries related to active Health Center patients are claimed for reimbursement from the County. Furthermore, the Hospital should reimburse the County $3,400 for obstetrical deliveries which were claimed to the County for ineligible patients.

The Hospital claimed and was reimbursed for malpractice insurance expenses that did not accurately reflect the actual malpractice insurance expenses incurred and paid by the Hospital in performance of the agreement. The Hospital incorrectly billed the County $6,866 for malpractice insurance expenses incurred prior to the contract period, and $4,192 for malpractice insurance expenses incurred after the associated physician terminated employment with the Hospital. The $11,058 audit adjustment was reduced by $6,130 due to an allowable malpractice insurance expense that was not claimed because the Hospital had previously claimed the maximum contract budget line item amount prior to the disallowance.

Recommendation 4

The Hospital should ensure that only those expenses actually incurred and paid on behalf of the Hospital are claimed for reimbursement from the County. Furthermore, the

Hospital should reimburse the County $4,928 for malpractice insurance expenses which were improperly claimed to the County.

Non-Material Instance of Noncompliance

Our audit revealed the following instance of noncompliance that is not considered material to the subject matter:

The Hospital did not submit its vouchers for reimbursement of employee fringe benefits in a timely manner as required by the Agreement. The Agreement states, "no later than March 1 of each calendar year covered by this Agreement, the Hospital shall submit to the County a claim supported by documentation satisfactory to the County, reporting the actual cost of employee benefits for the employees." However, the Hospital submitted its vouchers for reimbursement of fringe benefits on May 27, 2008 which is 87 days after the due date.

Recommendation 5

The Hospital should comply with the provisions of its Agreement with the County and submit its vouchers for reimbursement of employee fringe benefits within the time constraints of the Agreement.

This report is intended solely for the information and use of the Hospital's management and responsible Suffolk County officials and is not intended to be used by anyone other than these specified parties. However, this report is available for public inspection.

SCHEDULES

Note: The accompanying schedules are an integral part of this report and should be read in conjunction with the Letter of Transmittal (p.1)

Schedule 1

Peconic Bay Medical Center
Summary Statement of Expenditures
For the Period January 1, 2007 through December 31, 2007

Category	Amount Budgeted	Amount Reported	Audit Allowance	Amount Over (Under) Reported
Health Center (Sch.2)	$ 857,820	$ 758,761	$ 713,004	$ 45,757
Correctional Facility (Sch.3)	390,427	339,594	319,672	19,922
Total Gross Expenditures	$ 1,248,247	$ 1,098,355	$ 1,032,676	$ 65,679

Schedule 2

Peconic Bay Medical Center
Statement of Expenditures for the Riverhead Health Center
For the Period January 1, 2007 through December 31, 2007

Notes	Category	Amount Budgeted	Amount Reported	Audit Allowance	Amount Over (Under) Reported
	Personnel Services	$ 257,500	$ 180,493	$ 180,493	-
(2)	Fringe Benefits	51,500	47,881	22,354	25,527
(3)	Fee for Services	75,240	75,240	58,410	16,830
(4)	Inpatient Services	478,947	455,147	451,747	3,400
	Total Gross Expenditures	863,187	758,761	713,004	45,757
	Less: Anticipated Savings	5,367	-	-	-
	Net Contract	$ 857,820	$ 758,761	$ 713,004	$ 45,757

See Notes to Schedules (p. 14).

Schedule 3

Peconic Bay Medical Center
Statement of Expenditures for the Correctional Facility
For the Period January 1, 2007 through December 31, 2007

Notes	Category	Amount Budgeted	Amount Reported	Audit Allowance	Amount Over (Under) Reported
	Personnel Services	$ 257,500	$ 243,698	$ 243,698	-
(2)	Fringe Benefits	51,500	51,500	36,506	14,994
(5)	Other Than Personal Services	81,427	44,396	39,468	4,928
	Total Gross Expenditures	390,427	339,594	319,672	19,922
	Less: Anticipated Savings	-	-	-	-
	Net Contract	$ 390,427	$ 339,594	$ 319,672	$ 19,922

See Notes to Schedules (p. 14).

Notes to Schedule

Peconic Bay Medical Center

(1) Basis of Accounting – The Hospital prepares its Statement of Claimed and Adjusted Expenditures – Form 599 on the basis of cash disbursements. All expenses are recognized when paid rather than when the obligation is incurred.

(2) The Fringe Benefit adjustments are explained in finding 1 (p. 5) and are summarized as follows:

Fringe Benefit Category	Health Center	Correctional Facility	Total
Amount over claimed for Disability	$26,366	$30,747	$57,113
Amount over claimed for Workers' Compensation	180	438	618
Amount under claimed for Health Insurance	(1,019)	(8,864)	(9,883)
Budget Adjustment*	-	(7,327)	(7,327)
Total	$25,527	$14,994	$40,521

*The Budget Adjustment is due to the fact that the Hospital claimed fringe benefit expenditures totaling $58,827 for the correctional facility while the County only reimbursed the contract budget limit of $51,500.

(3) The Fee for Service Adjustment is explained in finding 2 (p. 7) and is summarized as follows:

	Sessions Provided	Fee per Session	Total
Reported Amount	152	$495	$75,240
Actual Amount	118	$495	$58,410
Difference (disallowance)	34	$495	$16,830

Notes to Schedule

Peconic Bay Medical Center

(4) The Inpatient Services adjustment is explained in finding 3 (p. 7) and is summarized as follows:

	Number of Deliveries	Fee per Delivery	Total
Reported Amount	236	$1,700	$401,200
Actual Amount	234	$1,700	$397,800
Difference (disallowance)	2	$1,700	$3,400

(5) The Other Than Personal Services Adjustment is explained in finding 4 (p. 8) and is summarized as follows:

Description	Amount
Malpractice Insurance expense for prior period (disallowance)	$6,866
Malpractice Insurance expense for period after physician's termination (disallowance)	$4,192
Malpractice Insurance not previously claimed (allowance)	($6,130)
Total Disallowance	$4,928

Exit Conference Report

The Hospital neither requested an exit conference nor submitted a formal response to the audit. Audit & Control contacted the Hospital, after the audit response due date, in an attempt to ensure that the Hospital did not intend to respond to the audit. We subsequently received an e-mail from the Hospital's Controller indicating that they would not be submitting a formal response to our audit.

Since the Hospital did not issue a response to the audit report, the audit report is hereby issued as originally drafted.